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## STATEMENT OF CHAIRMAN DANIEL K. AKAKA

Sticker Shock: What is the True Cost of Federal Long-Term Care Insurance?

## Joint Hearing Special Committee on Aging

Subcommittee on Oversight of Government Management, the Federal Workforce, and the District of Columbia, Senate Committee on Homeland Security and Governmental Affairs

I want to join Chairman Kohl in welcoming our witnesses and thanking them for joining us today to discuss the Federal Long-Term Care Insurance Program. I also want to thank my friend Chairman Kohl for inviting me to conduct this hearing with him today.

That these two committees would join forces to look into the Federal Long-Term Care Insurance Program and the long-term care insurance market demonstrates just how seriously we are concerned with its well being. My Subcommittee on Oversight of Government Management, the Federal Workforce, and the District of Columbia takes great interest in the management of the federal program, which is the largest long-term care insurance program in the country. Addressing the problems with the federal program will guide reforms of other long-term care insurance programs throughout the country.

The need for long-term care is great. In 2008, the average cost for one year of nursing home care was nearly \$70,000. According to the U.S. Department of Health and Human Services, at least 70 percent of people over age 65 will require some long-term care services, such as home health services or nursing home care, at some point in their lives. Many Americans mistakenly believe that Medicare and their regular health insurance programs will pay for long-term care. They do not. Although Medicaid provides some long-term care support, it only covers eligible beneficiaries. Many senior citizens are forced to spend their savings and other assets before they qualify for coverage. Long-term care insurance fills this important gap.

Throughout the country, there is a great and growing need to help Americans provide dignified and appropriate long-term care to their families. This unmet need is a particular concern in my home state of Hawai'i, because we have a severe shortage of long-term care.

Seeing the increasing need, Congress established the Federal Long Term Care Insurance Program in 2000 to provide federal workers with an option for long-term care coverage. This program, overseen by the Office of Personnel Management (OPM), began in 2003. There are currently over 275,000 federal employees and retirees enrolled in the program.

More than half of enrollees in the program chose the Automatic Compound Inflation Option. With this option, participants paid more initially but they were told – quoting from a previous version of the benefits booklet – that their "benefit will automatically increase by 5 percent compounded every year with NO corresponding increase in your premium" (emphasis in the original).

Yet, earlier this year, OPM announced premium increases of up to **25 percent** for participants in the program who selected this option.

Many of the affected enrollees understood that if they chose the automatic compound inflation option, their premiums would never increase. They are angry because they feel they were misled when they joined the program. I understand that OPM acknowledges that it did not expect a future premium increase, so it did not emphasize that possibility, although some program materials did state that it was possible.

According to OPM, over 146,000 participants will have some increase in their monthly premiums, including close to 2,500 enrollees in my home state of Hawai'i. In these difficult economic times, this unexpected increase is unacceptable.

The National Association of Insurance Commissioners, which is represented by one of our witnesses today, has developed standards to help ensure the stability of long-term care premiums over time. OPM has told us it used these standards in setting the rates for the federal program. I am puzzled by why such a large premium increase is necessary now. I hope the witnesses will address these rate standards and how to make sure that future increases will not occur.

OPM is giving participants an option to keep their premiums steady, but their benefit amounts will increase by only 4 percent instead of 5 percent each year. Those who may be interested in this option have no way of knowing whether 4 percent increases will be enough.

I understand that predicting the cost of long-term care into the future is an inherent problem within the long-term care insurance industry. However, it is critical that participants paying for this insurance year after year know whether the benefits will be sufficient to cover their costs when needed. I look forward to hearing from our witnesses about this issue.

The federal government is the largest employer in the country, and the federal long-term care insurance program is the largest of its kind. This program should serve as a model for the private sector and state and local governments. Right now, the program is falling short of this goal. I hope that today's hearing will help determine how to keep the program affordable and stable for our federal employee participants.